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World

## Getting Rich in the Heart of Russia

Vladimir Putin can afford to shrug off Cheney's complaints about his heavy hand. That's partly because oil money has brought prosperity to many people in unlikely outposts

By [PETER GUMBEL/KALUGA](#)

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There are no oil wells in Kaluga, no gold mines, no rich mineral deposits. In fact, until recently there was very little in this town (pop. 345,000) other than some run-down farms, a distillery that produces mediocre vodka, a big statue of a Soviet rocket-science pioneer and a war-era T-34 tank monument that still bears the inscription FOR STALIN AND THE MOTHERLAND.

But something is stirring here in provincial Russia, a three-hour drive from Moscow. The potholes on Lenin Street are as treacherous as ever, but over the past couple of years the dreary Soviet-era stores that once lined it have been snapped up and remodeled. Waitresses in red tartan aprons now dish out edible pizza for \$1 a slice at Tashir's shiny new restaurant, which also offers wireless Internet access. Nearby are a sushi bar, a kitchen-design store, a café that bears a passing resemblance to Starbucks, a bright yellow mobile-phone kiosk that's open 24 hours a day and Jackpot, a slot-machine arcade that marks Kaluga's attempt at glamour. "You can see people have more money," says Alexander Kuptsov, owner of Bellissimo, a shoe boutique that stocks a range of little-known Italian brands alongside a few famous ones like Valentino. In a good month he sells 150 pairs, far more than he did just a couple of years ago.

With oil prices now more than \$70 per bbl., Russia is awash in cash--and more of it is

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trickling down to ordinary people in ordinary places. Seven consecutive years of robust growth--currently about 6% a year after inflation--have transformed the country, giving birth to a consumer class and bringing signs of prosperity to the long-suffering hinterland. Although the distribution of wealth is far from egalitarian--the rich are getting a lot richer, corruption is endemic, and millions continue to struggle--the good life is in reach for more Russians than ever before. Victoria Grankina, a Moscow-based retail expert, estimates that 30% of the population lives "fairly comfortably" on monthly incomes averaging \$1,000 for a family of four. The number of mobile phones has soared from 12 for every 100 Russians in 2002 to 88 today. Sales of new foreign cars jumped 60% last year. The poverty rate dropped from 41% to 20% from 1999 to 2002, according to the World Bank, and other studies suggest it is now even lower.

President Vladimir Putin is reaping the benefit of the soaring economy. His approval rating is a rock-solid 70%. That support has allowed Putin to brush off his critics in the West, where the Russian President is often painted as a throwback to autocracy. The Kremlin has tightened its grip on society in recent years, cracked down on nongovernmental organizations and maneuvered to take control of natural resources and other industries it deems strategic. The Bush Administration, which has grown uneasy about Russian assertiveness beyond its borders, issued an unusually harsh indictment last week when Vice President Dick Cheney said Russia has "unfairly and improperly restricted the rights of her people" and warned Moscow against trying to meddle in the affairs of neighboring countries.

The boom hasn't yet caused Russians to shake their legendary pessimism. Andrei Milekhin, who runs the country's biggest polling organization, Romir Monitoring, says his polls suggest that most people don't feel better off even though they are consuming more. Everyone grumbles about inflation, currently at about 12%. Apartment prices are soaring faster than in Shanghai or New York City. But for all its uncertainties, the Putin era seems less erratic than the tumultuous years of the previous decade, spanning the collapse of the Soviet Union in 1991 and the Yeltsin-era crisis in 1998, which wiped out most people's savings. "Putin's our Teflon President," says Milekhin, pointing to a chart that shows how even potentially damaging events like the Beslan school hostage crisis in 2004 haven't dented Putin's popularity.

Indeed, growing numbers of ordinary Russians appear willing to trade some liberties for the economic opportunities that stability provides. Sergei Kuznetsov, 32, is one Russian in a hurry to live better. He used to sell sausage from a kiosk in Kaluga's open-air market, a tough business under any circumstances and particularly after the 1998 crisis, when the government temporarily suspended debt repayments and devalued the ruble 30%. But the economy recovered much faster than anyone expected. Together with his wife and a friend, Kuznetsov scraped and borrowed to buy a crude packaging machine and set up a business selling sunflower seeds and other products. He buys seeds in bulk from farmers in Rostov, 250 miles away, roasts them and then sells them in nearby towns. Today Kuznetsov Seed Co. has annual revenues of about \$1 million. Kuznetsov drives a silver Renault Scenic SUV while his wife, who has stopped work to remodel their apartment, dodges potholes in her new lime green Daewoo. "You can never be optimistic about anything in our country because if you're optimistic, it will end badly," he says. But he credits Putin with instilling confidence in the market: "There is no alternative to him. Stability is important for business."

Those most optimistic about the future tend to be people too young to remember Soviet times and unburdened by any ideological aversion to capitalism. Valentina Zagrebelnaya, 25, is part of that generation. She treads carefully as she crosses Lenin Street so as not



to get mud on her spike-heeled ankle boots. She runs the Kaluga branch of KMB bank, which specializes in giving small loans to entrepreneurs. She was 21 when she opened the bank branch, a graduate fresh from the local arts college, with no financial experience. No matter. Although there were few takers in the first couple of years, there were about 70 start-ups in Kaluga last year. The KMB Kaluga branch's loan portfolio has swelled over the past year from \$600,000 to \$2 million, and the number of clients has doubled. "A lot of people want to open shops," she says.

Vibrant as the scene is in backwaters like Kaluga, the signs of new prosperity in Russia's cities are even more striking. Yekaterinburg, a city of 1.3 million in the Urals region, 900 miles east of Moscow, is best known as the place where the Bolshevik revolutionaries shot the last Czar and his family in 1918. In the early 1990s, local factories ran out of money, and rival Mafia gangs battled for control of parts of town. The killings haven't entirely stopped (a member of the city council was found hanged in his jail cell last year after being arrested for alleged extortion), but these days cranes rather than guns are a more apt symbol of Yekaterinburg. Office and apartment blocks are springing up. There's an Egyptian-themed bowling alley, a Scottish pub where the barmen wear kilts, a chain of eight fast-food restaurants called McPeak (which McDonald's considered buying), countless sushi bars and a huge German cash-and-carry hypermarket near the airport. "It used to be hard to get credit, but now banks are lining up to lend to us," says Leonid Bazerov, who built a shopping mall in an abandoned theater in the mid-1990s and has expanded it to almost 10 times the original size.

Can the boom times last? Russia has set aside a portion of its oil revenues in a so-called stabilization fund that tops \$55 billion, and Moscow is running a budget surplus equal to 7% of GDP. But economists are worried that the Kremlin hasn't used the fat years to cut back on the remnants of Soviet-era bureaucracy, modernize Russian industry or improve the overall investment climate. "Russia will continue to be hooked on oil revenue for the foreseeable future," says Ivan Szegvari, a Russian-economy specialist at the European Bank for Reconstruction and Development in London. Retailing is booming, but there are relatively few examples of other businesses that have whipped themselves into shape.

And without a more generous safety net, millions of Russians risk being left behind. At the Shartashky open-air market in Yekaterinburg, Victor Shkola, 66, hovering by his collection of wrenches, screwdrivers and metal widgets, says he can barely pay the rising rent and utility bills, which eat up about \$75 of his \$95 monthly pension. On a good day, he can earn \$8 from sales of his hardware, but that's not enough. Putin this year has promised to boost spending on social services, and the Kremlin has raised some state pensions. But in the market's food section, Gulfara Shakhulovna, 59, isn't impressed. She's worried about the health of her husband, a carpenter who retired but went back to work to make ends meet. Pensions may be going up, she says, "but that won't help because food and rent are also going up."

Prices are going up in Kaluga too, but Svetlana Nikolskaya, 36, has learned to be flexible to make a sale. Nikolskaya, a former accountant and vegetable saleswoman, started selling wedding dresses from her home three years ago, after the birth of her son. It took her three months to sell the first one. Today she has a cramped boutique on Lenin Street next to a hat shop. In the wedding season, she sells as many as 20 dresses a month at prices of \$100 to \$400 apiece. Is she confident about the future? What does she think of Putin? She squirms uncomfortably, claiming not to know anything about politics. How about business? She flashes a broad smile. "Yes," she says, "I believe in the future of that." Today's Russia depends on a few million more catching that optimism.

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